Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of Federal-State Joint Board on Universal Service	CC Docket No. 96-45

NYNEX RESPONSE TO REQUEST FOR FURTHER COMMENTS

On July 3, 1993, the Commission issued a Public Notice requesting further comments on 72 issues in the above-referenced proceeding.[1] Attached is the response of the NYNEX Telephone Companies[2] ("NYNEX") to the Commission's notice. The following is a summary of NYNEX's response.

026

[1] *See* Public Notice, DA 96-1078, released July 3, 1996.

[2] The NYNEX Telephone Companies are New York Telephone Company and New England Telephone and Telegraph Company.

SUMMARY OF RESPONSE

•Definitions Issues

The Commission should assume that the current State rates for local telephone exchange service, which have resulted in a 94% nationwide penetration rate, constitute "affordable" rates for the vast majority of customers. High cost funding should be designed to support the current rate levels. This can be accomplished by comparing the cost of the extremely high cost areas with a national benchmark cost, and not with a national benchmark rate. Targeted assistance mechanisms should be used to increase subscribership by low income groups and by other groups that have lower-than-average penetration levels.

•Schools, Libraries and Health Care Providers

The Commission should include the costs of inside wiring and other internal connections in the universal service fund so that advanced telecommunications and information services will be made available to classrooms. The NYNEX Education Plan would provide schools and libraries with the flexibility to obtain the telecommunications services and information services they need at the best available prices, with additional discounts funded by the universal service fund. The plan would encourage competitive bidding for these services. The competitive bidding process would establish the "base price" for determining the amount of the discount that would be funded. In the absence of competitive bidding, the tariffed price for a similar customer would

be the base price. Resale should be prohibited, but aggregation among schools should be permitted and encouraged. The federal program should be designed to complement existing and future programs that have been adopted in many states to promote the provision of advanced telecommunications services to schools. The Commission should adopt a range of discounts that the State authorities could use to provide higher levels of support to schools and libraries in low-income areas.

•High Cost Fund

If the Commission decides to retain the existing universal service fund ("USF"), either on a temporary or permanent basis, it should modify the USF to increase the threshold for assistance and to consolidate study areas within a state. In addition, the Commission should make administrative changes to conform to Section 254 of the Act and to make the funding mechanism competitively neutral.

A proxy model like the Benchmark Cost Model ("BCM") would be a better way of targeting high cost assistance to the census block groups that are truly high-cost. The BCM should only be used to determine high-cost support levels for areas served by price cap LECs -- support for non-price cap LECs should be based on their book costs.

The Commission's recent decision in Docket 96-98 to allow interexchange carriers to purchase unbundled network elements under Section 251(c)(3) of the

Act at prices based on total element long run incremental cost ("TELRIC"), plus an allocation of joint and common costs, will eliminate contributions that may need to be included in the universal service fund. The current interstate and state access charges, as well as state services such as vertical features, provide contribution that allows the LECs to maintain affordable rates for residential customers in general, and for high-cost areas in particular. After June 30, 1997, or earlier, the LECs will not be able to recover access charges from purchasers of unbundled network elements, and the charges for those elements will be well below current rates. The Commission should include the shortfall, to the extent that it is not covered through access charge reform, in the universal service fund.

•SLC/CCLC

The carrier common line ("CCL") charge contains two subsidy elements -- Long Term Support, and payphone costs. The remainder of the CCL charge recovers nontraffic sensitive costs of the local loop on a usage-sensitive basis. This is a pricing issue that should be dealt with through pricing flexibility and/or access charge reform. The Commission's recent decision not to require purchasers of unbundled network elements to pay the CCL charge after June 30, 1997, or earlier, will require the LECs to recover these revenues through other means, such as some sort of bulk billing mechanism, an increase in the subscriber line charge ("SLC"), or the universal service fund. If the Commission decides not to allow an increase in the SLC, the most competitively neutral mechanism would be the universal service fund.

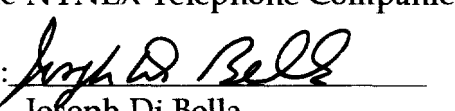
The universal service fund should incorporate funding for Lifeline and Link-up America programs, to make those programs competitively neutral as required by the Act.

•Administration of Universal Service Support

The costs of administering the universal service fund, assuming a nationwide surcharge determined by the fund administrator, are likely to be small. Therefore, it is unlikely that any carrier will be eligible for a "de minimis" exemption as specified in Section 254(d) of the Act.

Respectfully submitted,

The NYNEX Telephone Companies

By: 
Joseph Di Bella

1300 I Street, N.W., Suite 400 West
Washington, DC 20005
(202) 336-7894

Their Attorney

Dated: August 2, 1996

Definitions Issues

1. Is it appropriate to assume that current rates for services included within the definition of universal service are affordable, despite variations among companies and service areas?

The Commission should presume that the current rates for local telephone service are at or below the level that is "affordable." These rates have resulted in a very high level of telephone service penetration throughout the nation. The 1995 national telephone penetration rate was 93.9%.[1] In the NYNEX region, the penetration rates are as follows: Maine 95.7%; Massachusetts 95.9%; New Hampshire 96.2%; New York 92.9%; Rhode Island 96.0%; Vermont 96.5%.[2] Thus, while telephone rates vary by jurisdiction, the rates are "affordable" to the vast majority of telephone subscribers in all states. This is a product of state regulatory policies that were designed to minimize the rates for basic residential telephone service. However, the penetration rates for certain income levels and for certain ethnic groups shows that these groups need targeted financial assistance, as well as other measures such as toll blocking, to make telephone service more affordable to all citizens.

2. To what extent should non-rate factors, such as subscribership level, telephone expenditures as a percentage of income, cost of living, or local calling area size be considered in determining the affordability and reasonable comparability of rates?

These factors should not be considered at a national level; however, state regulators could consider such factors among other things in setting local rates. The state commissions are in the best position to determine affordable basic residential rates for

[1] CC Docket 87-339; Monitoring Report; May 1996; Table 1.2
[2] *Id.*

different localities and calli g area sizes in each state. It would not be practical for the Commission to establish a ationwide formula that would properly take into account the differences among states, a id localities within states, in economic conditions, income levels, level of competition infrastructure and technological development, etc. For example, even within a par cular state, local calling areas differ radically in size, so that the value of flat-rated calli g areas varies greatly within and among states. There are varied types of local excha ge services -- some include flat service, others include measured service, and still thers include "LATA-wide calling service, "municipal calling service" and "Regional Cal ing Plan service." The cost of living varies from locality to locality. Telephone expen itures per customer differ from one income group to another. Even within an income gro ip, individuals do not value telephone services in the same way. Some may value telephone service highly, while others may place a higher value on cable television services. Still ot ers may not want to have a telephone at all.

The States have alr ady taken these factors into account in setting rates for local telephone service that have resulted in very high penetration rates. Therefore, the Commission need not, and should not, establish a nationwide formula for determining the affordable rate for local ex hange service in each locality. The Commission should establish two goals at the f deral level: (1) to maintain support for current local telephone rates in high cost areas; an (2) to develop targeted support mechanisms to increase subscribership for groups t at are below the nationwide average.

3. When making the " affordability" determination required by Section 254(i) of the Act, what are the adva tages and disadvantages of using a specific national benchmark rate for core services i a proxy model?

For detailed discuss on of disadvantages, see Answer 2, above. In addition, a disadvantage of setting a n tional benchmark rate is that it gives the impression that any cost above the national ben hmark rate will be explicitly funded. If that is the case, the high-cost fund will be very ig, since even a relatively average cost area may qualify for assistance; and there will b no incentive for the local telephone company to reduce costs. This would impede the ope ation of a free and competitive market. Instead of a national benchmark rate, it is prefer ble to use a national benchmark cost. This benchmark cost should be set relatively hig , since its purpose would be to identify relatively few high cost areas that require support. The benchmark cost could be used to determine the size of the fund and to target support o areas that are truly high-cost.

The difference betw een the cost estimate and the benchmark cost would be the amount that would be subj ct to national funding. The actual difference could be weighted by some percentage to refl ct the fact that a company should be required to recover some of the difference through r te averaging. Even in the most competitive industries, companies engage in vario s levels of price averaging among customer groups, so that margins can be expected t vary even under competitive conditions.[3]

4. What are the effect s on competition if a carrier is denied universal service support because it is technically infeasible for that carrier to provide one or more of the core services?

[3] *See* NYNEX Comments C Docket 80-286; October 10, 1995; page 23.

Universal service fu ıding for high-cost areas, as required by Section 254 of the Act, would have little effec on competition.[4] For instance, the NYNEX proposal to use the Benchmark Cost Mode ("BCM") to provide a set of support levels ranging from $5 to $30 per month would prov le support to approximately 2.2 million, or 2.59%, of the 85 million households in areas served by the price cap LECs.[5] Even if none of the competitive local exchange carriers ("CLECs") was eligible to receive universal service funds, the CLECs would st ll be on an equal competitive footing with the LECs in offering services to the remaining 9 41% of market that would not be eligible for universal service support. However, the NY NEX proposal is based on the assumption that the LECs would still be able to collec significant contributions from access charges, toll, and vertical services.

If the Commission adopted a much larger level of universal service funding, it still would not inhibit competiti on in the local exchange. In its Comments, NYNEX supported a definition of "core" unive sal service that should be within the means of most switch-based CLECs. In addition Section 214(e) of the Act allows the CLECs to be eligible for universal service support if they provide universal service using their own facilities, or a combination of their own f cilities and resale of another carrier's services. Resale of LEC

[4] The current level of expli it universal service funding has a negligible impact on competition. The 1995 tota l subject-to-separations revenues of the LECs that file ARMIS reports is $91 billion, and t ne interstate high cost assistance for the same year is $750 million; this means that int rstate high cost assistance is less than 0.79% of the incumbent LECs' revenues stream. *S e* CC Docket 87-339; Monitoring Report; May 1996; Tables 3.2 and 6.2.

[5] *See* NYNEX Comments n CC Docket 96-45, April 12, 1996 (hereinafter, *NYNEX Comments*) at p. 14.

services should make it "technically feasible" for CLECs to provide the full range of "core" universal services.

5. A number of commenters proposed various services to be included on the list of supported services, including access to directory assistance, emergency assistance, and advanced services. Although the delivery of these services may require a local loop, do loop costs accurately represent the actual cost of providing core services? To the extent that loop costs do not fully represent the costs associated with including a service in the definition of core services, identify and quantify other costs to be considered.

The costs that should be supported by universal service funding should include the loop, the line port (nontraffic sensitive switching) and some part of the usage sensitive switch costs.[6] These functions would provide access to additional services, such as directory assistance, emergency assistance, advanced services, etc. Therefore, the cost model for universal service should not include the costs of those additional services.

Schools, Libraries, Health Care Providers

6. Should the services or functionalities eligible for discounts be specifically limited and identified, or should the discount apply to all available services?

The Commission should develop a plan that allows the schools, libraries and health care providers to define the services for which they need support by the universal service fund. NYNEX has recommended the establishment of an Education Telecommunications

[6] NYNEX estimates that the costs of the non-traffic sensitive portion of core universal service is about 75% of the total core universal service costs. This includes costs associated with the loop (link), the line port (non-traffic sensitive switching) and billing. The remainder of the core universal service is about 25% of the total core universal service.

Council to assist in this pro ess. The Commission should avoid adopting an inflexible universal service support m chanism that would dictate a standard set of services to be provided to every school o library, or that would specify a particular discount for each telecommunications servic [7]

7. Does Section 254(h) contemplate that inside wiring or other internal connections to classrooms may be e igible for universal service support of telecommunications services provided to sc ools and libraries? If so, what is the estimated cost of the inside wiring and other nternal connections?

The Telecommunic tions Act specifically contemplates universal service for delivery of telecommunicat ons services to elementary and secondary school *classrooms*. Section 254(c)(3) of the A t, which defines "special services," says that: "In addition to the services included in the definition of universal service under paragraph (1), the Commission may designate additional services for such support mechanisms for schools, libraries, and health care p viders for the purposes of subsection (h)." Subsection (h)(2) states that the Commissio shall establish competitively neutral rules to enhance access to advanced telecommunicati ns and information services for all public and non-public elementary and secondary chool classrooms. The Conference Report also makes it clear that Congress intended for the Commission to define universal service as a set of telecommunications and in ormation services for classrooms.[8] Therefore, the Commission should define universal ser ice to include the inside wiring and other internal connections

[7] *NYNEX Comments*, p. 19-20.
[8] *See* S. Conf. Rep. S.104-230, 104th Cong., 2nd Sess., p. 133.

needed to ensure that telec mmunications and information services are delivered to the classroom.[9]

The cost of such int ernal connections has been estimated by McKinsey & Co. to be $5.025 billion initially for p iblic K-12 schools, and $410 million per year for ongoing costs. These figures would have to be adjusted to include nonprofit private schools.

8. To what extent shou ld the provisions of Sections 706 and 708 be considered by the Joint Board and be relie d upon to provide advanced services to schools, libraries and health care providers?

Section 706 states t nat the Commission and the State commissions shall encourage the deployment of advance l telecommunications capabilities to all Americans (including, in particular, to elementary and secondary schools and classrooms) through such methods as price cap regulation, reg ulatory forbearance, measures which promote competition in the local telecommunicatio ns market, or other regulatory methods that remove barriers to infrastructure investment. The Joint Board and the Commission should pursue these goals by adopting policies hat encourage facilities-based competition and market-based pricing in the local and lon distance markets. Facilities-based competition will tend to drive down the costs of tel communications while giving the carriers the incentive to deploy advanced technolo ies. Market-based pricing will encourage efficient investment in the telecommunications nfrastructure by both incumbent LECs and CLECs. The Joint Board should ensure that c arriers who provide universal service are adequately

[9] Under Section 254(e) of he act, only eligible telecommunications carriers, designated under section 214(e), shall be eligible to receive specific Federal universal service support for such services.

compensated, so that both i ncumbent LECs and new entrants will have an incentive to invest in the network. It sh ould adopt a universal service funding mechanism that allows the schools and libraries to obtain the lowest possible prices by requesting competitive bids from among facilities-b ased carriers, and to apply universal service support funds as discounts to the bid prices (not to the carriers' list prices). These policies, abetted by targeted support mechanisms for high cost areas, schools, libraries, and health care providers, would ensure th t all Americans have access to advanced telecommunications services.

Section 708 recogn zes the need for further aid to public educational institutions beyond the universal servic e funding provisions of Section 254. It provides funding for the National Education Te hnology Funding Corporation to provide information, technical assistance, and loans, gran s, and other forms of assistance to the States. This section should be utilized by the F C to coordinate and stimulate the funding of activities and services which are not cov red under Section 254. This section, however, does not contemplate creating such unding under a Universal Service Support Fund.

9. How can universal service support for schools, libraries, and health care providers be structured to promo e competition?

Under the NYNEX Education Plan, after a school was certified by a State Authority, the school coul solicit the best market price for the telecommunications services it desired to purch se. If the school/library/health care provider was in an area where no competitive bidd rs existed, it could join forces with a larger entity which had

greater market clout and c ould broker the best price for those services. All telecommunications carrier would compete freely in providing services to schools, since the customers, rather than t ne designated carriers, would determine the amount of assistance that would be ap lied. The schools would be able to negotiate the best deals they could with telecommu ications carriers, since the discount amount would be applied against the total amount bi by a carrier, which presumably would reflect the amount that the carrier would charge tc a similar customer for a similar volume and/or term purchase. Funding would not be tied o any particular technology, and schools could decide from year to year how to apply t ne funds in the most cost-effective manner.[10]

10. Should the resale prohibition in Section 254(h)(3) be construed to prohibit only the resale of services to the public for profit, and should it be construed so as to permit end user cost based fees for services? Would construction in this manner facilitate community networks and/or aggregation of purchasing power?

Section 254(h)(3) c oes not permit the resale of universal service by schools, libraries or health care pro iders, regardless of whether such institutions make a profit on resale. If the Commission dopted a funding mechanism such as the NYNEX Education Plan, schools could aggreg ate their demand and obtain lower prices for telecommunications servic s without running afoul of the Section 254(h)(3) prohibition.

11. If the answer to the first question in number 10 is "yes," should the discounts be available only for the traffic or network usage attributable to the educational entities that qualify for the Sec ion 254 discounts?

See the answer to c uestion number 10.

[10] *NYNEX Comments*, p. 2 -23.

12. Should discounts b directed to the states in the form of block grants?

No, states should n t receive block grants Under the NYNEX Education Plan , funds would be allocated t the schools based on a Benchmark Price per student. The Commission, after gatherin data on the difference in costs between urban and rural areas of acquiring similar telecon munications capabilities, would disaggregate the Benchmark Price per student for urban and rural areas for purposes of calculating a Benchmark Discount per student. Afte each school was certified as eligible for funding by a state authority, it would receive liscounts directly from the fund in the form of "Telecommunications Cred ts."[11] NYNEX proposes that at the state level, however, there should be the ability to var the level of the discount applicable to each school, if that is necessary to achieve the ed ucational vision. The state can supply a level of coordination which does not exist in ind vidual schools, and it can also achieve a higher level of discount through brokerin for the schools. An example is NYNEX's contract with the Maine Department of Edu ation, which provides for a lower cost for in-state toll services for state schools.

13. Should discounts f or schools, libraries, and health care providers take the form of direct billing credits fo telecommunications services provided to eligible institutions?

Yes. After solicitir the best market price, the eligible institutions would apply pre-determined Telecomm nications Credits to their purchase price, and carriers would incorporate that amount a a discount on the total charges for the services in question.

[11] *See NYNEX Comments*, . 22; NYNEX Reply Comments in CC Docket 96-45, May 7, 1996 (hereinafter, *NYNEX Reply Comments*), p.14.

The telecommunications ca rier that was selected by the eligible entity to provide the telecommunications service would seek reimbursement from the universal fund administrator for the amou t of Telecommunications Credits, and bill the institution for the remainder.[12]

14. If the discounts are disbursed as block grants to states or as direct billing credits for schools, libraries, ar d health care providers, what, if any, measures should be implemented to assure hat the funds allocated for discounts are used for their intended purposes?

The state authoritie should determine how this might be best achieved through each State's education visi n. Under the NYNEX Education Plan, the States would not disburse the funds. Howe er, the States should monitor the distribution of universal service funding and gather lata on the effectiveness of the funding mechanism. For example, in its agreement i Rhode Island to provide Internet services and other data network access, NYNEX h as agreed to issue quarterly reports to the Department of Education regarding reven e foregone, and to cooperate with and report billing data to the Department of Educati n so that the use of services for data network access offered by NYNEX is efficiently u lized.

15. What is the least administratively burdensome requirement that could be used to ensure that requests fo supported telecommunications services are bona fide requests within the intent of sec ion 254(h)?

NYNEX believes t at this request process should be as streamlined as possible while still meeting the requ rements and goals of the Act. An appropriate state or local

[12] *See NYNEX Comments*, p. 22.

organization would be given the authority to certify annually that that a school was eligible to receive funding under the plan. In order to ensure that there is reasonable coordination among schools in a district or state, however, part of the certification could be the verification of the existence of a technology plan, along with other information, possibly in the form of a checklist, helpful in tracking universal service progress. States that already require technology plans could pre-certify the existence of local plans for all schools in their state.

16. What should be the base service prices to which discounts for schools and libraries are applied: (a) total service long-run incremental cost; (b) short-run incremental costs; (c) best commercially-available rate; (d) tariffed rate; (e) rate established through a competitively-bid contract in which schools and libraries participate; (f) lowest of some group of the above; or (g) some other benchmark? How could the best commercially-available rate be ascertained, in light of the fact that many such rates may be established pursuant to confidential contractual arrangements?

Because the Telecommunications Act of 1996 will promote a competitive environment, many tariffed rates will disappear, and confidential contractual arrangements for telecommunications services will become commonplace. The base service price should be the rate established through competitive bidding (please refer to our answer to question No. 9). In the absence of competing bidders, the base service price should be the tariffed rate, since tariffed rates are likely to continue until markets are fully competitive. NYNEX does not support proposals that telecommunications carriers be required to provide services to schools and libraries priced at incremental cost, or that they should be provided universal service funds only for discounts from prices based on incremental cost.[13] Under

[13] *See NYNEX Reply Comments*, p.14.

Section 254(h)(1)(B), telec mmunications carriers are entitled to compensation, either through the universal servic e fund or through offsets to the carriers' universal service obligations, for any discour ts that they provide to schools and libraries if the amounts of the discounts have been ap roved by the Commission and the States and if the services are within the Commission's d finition of universal service Anything less would not encourage carriers to build nfrastructure or to compete for contracts to provide advanced telecommunications servic s to schools and libraries.[14]

17. How should discou nts be applied, if at all, for schools and libraries and rural health care providers th at are currently receiving special rates?

Discounts and spec al rates already in existence should not be affected. The NYNEX Education Plan w uld not conflict with or interfere with any existing state program or any other disc unt plan. Under the NEP, the State Authority has the ability to vary the discount to the sc ools within its jurisdiction. The discounting structure NYNEX has proposed ensures flexi ility. The State Authority could decide that those special rates should be further discount d under the plan so that they become, for those entities, a deeper discount or possibl even free. Or the State Authority might decide that other entities have greater need, nd direct the discounts in question to those entities. The State could also supplement the liscount with additional credits for intrastate services that

[14] It would also be inconsi tent with Section 706 of the Telecommunications Act of 1996, which requires regulatory gencies to encourage the deployment of advanced telecommunications servic s to all Americans, in particular schools and classrooms.

would be funded by a state universal service fund, or with other alternative support mechanisms, as permitted by Section 254(f).[15]

18. What states have established discount programs for telecommunications services provided to schools, libraries, and health care providers? Describe the programs, including the measurable outcomes and the associated costs.

As part of a regulatory agreement in Maine, NYNEX will supply funding for a plan to provide access to information networks and services to those public libraries and K-12 public schools that presently lack adequate access. Up to $4 million a year for five years will be used to provide reduced rates and/or provide access to a statewide frame relay network, including Internet access. NYNEX also entered into a contract with the Maine Department of Education in 1995 to provide for a lower cost for in-state toll services for state schools, allowing them to triple their current level of usage at no additional cost. In Rhode Island, under the terms of a Price Regulation Plan and Settlement Agreement of June 14, 1996, NYNEX will spend $7.5 million over a 5-year period to provide Internet services or other data network access, in consultation with and in accordance with methods and procedures approved by NYNEX and the Rhode Island Department of Education, using technology which is mutually agreed upon by NYNEX and the individual institution, and which allows for user discretion and flexibility for the most efficient use of available funding.

19. Should an additional discount be given to schools and libraries located in rural, insular, high-cost and economically disadvantaged areas? What percentage of telecommunications services (e.g. Internet services) used by schools and libraries in such areas are or require toll calls?

[15] *See NYNEX Comments*, p. 22.

NYNEX has propo ed that there be disaggregated Benchmark Prices and Benchmark Discounts for u rban and rural areas, with supplemental support for rural areas to ensure that each would p ay the same net price for services.[16] Through the flexible structure NYNEX has pro osed, entities in high cost service areas and schools with special needs could also re eive supplemental allotments from the State Authority to better equalize their purcha sing opportunities. However, the average discount for all schools in the state would ave to equal the Benchmark Discount, and the discounts would have to be within a ange set by the Commission. NYNEX has proposed that services identified as start- p be discounted at a level of 75%, and services identified as ongoing be discounted at a level of 50%. NYNEX has additionally proposed that the Commission allow the Stat s to vary the discounts within ranges of 25%-100% for initial costs, and 20%-90% for o going costs.[17]

20. Should the Comm ssion use some existing model to determine the degree to which a school is disad vantaged (e.g. Title I or the national school lunch program)? Which one? What, if a ny, modifications should the Commission make to that model?

The State educatio authorities should make the determination of which model or combination of models sh uld be used.

21. Should the Comm ssion use a sliding scale approach (i.e., along a continuum of need) or a step approa h (e.g., the Lifeline assistance program or the national school lunch program) to allo ate any additional consideration given to schools and libraries located in rural, insula , high-cost and economically disadvantaged areas?

[16] *See NYNEX Reply Com nents*, p. 14.
[17] *See NYNEX Comments*, Exhibit D, p. 2-3.

The States should d etermine the approach to be used. However, the national school lunch program woul l be better than Lifeline, since children that participate in school lunch programs ma not necessarily be from families that receive Lifeline service. The school lunch program are more likely to correlate with the level of support that a particular school system ne ds to obtain universal service.

22. Should separate fu ding mechanisms be established for schools and libraries and for rural health provide s?

There could be any number of separate funds making up the larger universal service fund. The method logy for collecting the fund, however, should be the same: a single surcharge on interst te retail revenues.

23. Are the cost estim tes contained in the McKinsey Report and NII Kickstart Initiative an accurate fu nding estimate for the discount provisions for schools and libraries, assuming that tariffed rates are used as the base prices?

Yes. McKinsey us d tariffed rates, or in their absence, surrogates, in estimating costs.

24. Are there other co st estimates available that can serve as the basis for establishing a funding estimate for he discount provisions applicable to schools and libraries and to rural health care provi ers?

We are not aware f any other nationwide estimates.

25. Are there any spe ific estimates that address the discount funding estimates for eligible private schools?

NYNEX is not awa e of specific estimates for eligible private schools. NYNEX proposes that private scho s be treated the same as public schools, and that their funding be estimated on a pro-rata asis with public schools. If states determine otherwise, they should address the differen e within those states.

High Cost Fund

General Questions

26. If the existing high-cost support mechanism remains in place (on either a permanent or temporar basis), what modifications, if any, are required to comply with the Telecommunication s Act of 1996?

For permanent mod fications, see Answer 27 If the Commission decides to retain the existing USF on a temp orary basis, then five modifications are needed to target assistance to high cost area s.

First, the Commiss on should increase the current threshold for receiving assistance from 115% of th e national average loop cost to 130%. The current threshold is too low to effectively disti guish a high-cost area from an average-cost area. If a study area is to be characterized as high-cost, at a minimum, its average loop cost should be one standard deviation greater han the national average. This would be a statistically sound way of distinguishing relat vely high cost areas from those that are not. A threshold of 130% of the national aver ge loop cost approximates one standard deviation.[18] An analysis of NYNEX New ork, which has loop costs close to the national average, shows that loop costs in the rura areas are more than 180% of the loop cost in the nation and 254% of the Loop costs i urban areas.[19] See Chart 1 below.

[18] *See id.* at p 6-7.
[19] *See* NYNEX Comment in CC Docket 80-286; October 10, 1995 at p 16-17.

Chart 1
NYNEX New York : Average Cost per Loop by Areas

Area	Average Monthly Cost Per Loop	Percentage of the National Average
Major Cities	$14.61	72.14%
Major Suburban	$17.60	86.94%
Rest of New York State	$37.14	183.45%
Average of New York	$20.59	101.72%
Average of Nation	$20.25	100.00%

Second, the Commission should consolidate multiple study areas within a state to a single study area. Some large carriers have been able to qualify for assistance intended for small carriers by maintaining small study areas within a state. High-cost assistance mechanisms should be applied uniformly and consistently, at least among the large LECs or among the price cap LEC's. The rules should not favor one LEC over another, just because of an historical accident in the way that study areas evolved and were frozen in 1984.[20] For example, NYNEX does not qualify for high-cost support in the State of New York, where it maintains a state-wide study area and where its average loop cost is very close to the national average (see chart above). However, if NYNEX had different study areas in the urban and rural portions of New York State, it would qualify for a substantial amount of interstate high cost assistance. The weighted average loop costs in the relatively rural serving territory of NYNEX New York are greater than 180% of the national average loop cost, and these loops constitute almost 20% of the total loops in the state. A large LEC with the same cost characteristics as NYNEX should not receive high-

[20] *See* NYNEX Reply Comments CC Docket 80-286 November 9, 1995 at p 4-5

cost support simply because it chooses to maintain separate study areas within the same state.

Third, for support to be competitively neutral, a new entrant should qualify for the same amount of assistance per line in any study area served by the incumbent LEC only if it offers universal service throughout the LEC's study area, as required by Section 214(e) of the Act.

Fourth, the Commission should keep the current "interim cap" that indexes the growth in the total level of the interstate high cost fund to growth in the total number of working loops nation-wide.[21]

Fifth, the Commission should modify the funding mechanism to collect contributions from all providers of retail interstate telecommunications services, as required by Section 254(d) of the Act. Each carrier should apply the same percentage surcharge on its end users' bills to collect USF revenues, which would be allocated by the USF administrator to the companies that qualified for high-cost assistance.

27. If the high-cost support system is kept in place for rural areas, how should it be modified to target the fund better and consistently with the Telecommunications Act of 1996?

Currently, there are three high-cost programs for rural areas; the current USF, Dial Equipment Minute ("DEM") Weighting, and Long Term Support ("LTS") payments. None of these programs meets the technical requirements of Section 254 of the Act

[21] *See* NYNEX Comments In CC Docket 80-286, October 10, 1995 at p. 20; *see also* CC Docket 96-45 Report and Order; FCC 96-281 released June 26, 1996